OFFICE OF THE
AUDITOR GENERAL
MANITOBA

Web Version

March 31, 2011

Operations of the Office

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OFFICE OF THE
AUDITOR GENERAL
MANITOBA

July 2011

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report titled, *Operations of the Office for the year ended March 31, 2011*, to be laid before Members of the Legislative Assembly in accordance with the provisions of Sections 26(2) and 28 of The Auditor General Act.

Respectfully submitted,

Original document signed by:
Carol Bellringer

Carol Bellringer, FCA, MBA
Auditor General

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Message from the Auditor General

This report represents the 5th annual Operations Report issued since my appointment as Auditor General in 2006, marking the half-way point in my 10-year mandate. Reaching the half-way point has brought the opportunity for reflection about how to best position the Office going forward. This report includes some of those reflections, records the successful outcomes of the Office over the past year and also lists our audit plan for the upcoming year.

In measuring our success, of primary importance is how well we have been able to assist the Legislature. We assist the Legislature by completing audit reports, by discussing those audit reports with members of the Public Accounts Committee and by providing advice throughout the year to officials and members of the Legislature. We are a small part of a much larger network of public accountability and transparency – but we see ourselves as an important catalyst in making that network work effectively – and as an important safety net in the event that the network fails.

To deliver on that, we need to have a well-performing Office. Our management team guides the work of over 50 staff members. Key to success is effective leadership, technically strong audit staff complemented by an efficient administration group. I would like to extend a special thanks to the executive managers - Jack Buckwold, Sandra Cohen, Greg MacBeth and Norm Ricard and to Mala Sachdeva who led the financial statement team prior to her recent departure to accept a position with a Crown Corporation in May of this year. It is critical that staff continually develop their technical skills to provide excellent service to the Legislature. We have made and continue to make significant investments in professional development for all of our staff members to ensure that they remain able to do so.

The five-year highlight for me in assisting the Legislature has been working with a more effective Public Accounts Committee (PAC). While many people contributed to that improvement, I am going to single out five members of the Committee – Len Derkach, Rick Borotsik, the Honourable Rosann Wowchuk, Doug Martindale and Marilyn Brick. These five members of the Legislature have announced that they will not be seeking re-election and I would like to thank each of them for their contribution to the PAC. Len Derkach was an effective leader - Chairing the PAC and inspiring a commitment to PAC process improvements. I would like to thank him for his wise advice over the past few years. Rick Borotsik was an active member of the PAC – he attended 30 PAC meetings since December 2007. He showed a sincere interest in the audit issues coming before PAC and in the structural changes needed to improve the Committee. We continue to urge the

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PAC to update its rules, and to move towards a more non-partisan environment by removing Ministers from its membership. However, Rosann Wowchuk, Minister of Finance has participated as both member and witness in a constructive way despite the limitations of the rules. Doug Martindale and Marilyn Brick, as Government members, contributed to a better functioning committee by asking questions of witnesses. They showed by example how the active involvement of Government members will allow the committee to advance to the next level.

Regarding audit work that we conduct to serve the Legislature, about half of our time is spent on financial statement audits which are prescribed by Legislation and the other half is spent on project audits that we select independently.

For the financial statement audits prescribed by legislation, we are the appointed auditors of the Public Accounts, approximately 40 entities that are part of the Government Reporting Entity (GRE) and the government sponsored pension plans. We have the flexibility to engage agents to conduct audits on our behalf when this assists us with scheduling and when it is warranted by the risk of the audit – currently we use agents for about half of our entity financial statement audits. Other entities in the GRE appoint external financial statement auditors – this is the case for approximately 130 other crown organizations, government enterprises and special operating agencies included in the government reporting entity. We conduct overview procedures for these other audits.

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To select the project audits, we take a number of factors into account, including risk and significance of the subject matter, potential impact of our audit work, public interest and staff availability. In addition, Section 16 of the Auditor General Act permits the Lieutenant Governor in Council (Cabinet), the Minister of Finance or the Public Accounts Committee to request a Special Audit. We are obliged to accept these requests unless they interfere with our primary responsibilities. This is an important opportunity for the Legislature to use the skills available in our Office to provide them with useful accountability information. I have become increasingly concerned that over the past 5 years, other than one request by the Minister of Finance to expedite an audit we had commenced, neither Cabinet nor the Minister of Finance have used the provisions in this Section. And the PAC has only requested one audit under this Section: Image Campaign for the Province of Manitoba issued in October 2007. It is disappointing that this has been the case and suggests that a constructive dialogue needs to take place about how our audits can be used to better serve the Legislature.

Over this past year, we issued four audit reports: In December 2010, we issued a report on our audit of the Public Accounts and a report on our performance audits with chapters on: *Managing Climate Change, Economic Development: Loans and Investments under The Development Corporation Act, Society for Manitobans*

with Disabilities and The Rural Municipality of St. Laurent. In March 2011, we issued our annual report on our *Follow-up of Previously Issued Recommendations* and most recently, in May 2011 we completed our report on *Manitoba's Participation in Canada's Economic Action Plan.* Summary results of these audits are repeated in this report for ease of reference.

When we conduct our annual planning exercise, we reassess the value of audits that have not yet been started and analyze potential areas not previously considered. Three audits listed in last year's report are no longer included in our audit plans: the Estimates Process, Grant Accountability and Management of Consulting Services. While we are not planning an audit of the estimates process, we will continue to report on the comparison of actual year-end financial results with the budget and 3rd quarter forecast (see page 22 of our Audit of the Public Accounts for the year ended March 31, 2010). Aspects of the other two audits will be integrated into other projects, as appropriate.

Over the next year, we will continue to work on the following project audits which were listed in last year's Operations report:

- Bodily Injury Claims managed by Manitoba Public Insurance
- eHealth – Controls in place around certain aspects of the electronic health records program
- Food Safety – The controls in place to protect the public in areas of food safety
- Forks North Portage – The Province's role in managing Forks North Portage
- Framework for an Ethical Environment in Government – The government's framework for ensuring a strong understanding of appropriate public sector values and ethical expectations within the civil service
- Governance Examination – The Province's process for appointing board members to Manitoba's Crown Corporations
- Provincial Nominee Program – The Province's Provincial Nominee Program as managed by the Department of Entrepreneurship, Training and Trade including the effectiveness of controls in place by the Province to protect immigrants sponsored under the Program
- The Special Needs Program delivered through the public school system, as directed by the Department of Education
- Special Operating Agencies – Whether administrative efficiencies have been achieved through the establishment of Special Operating Agencies
- Taxation collection and taxation audit processes in the Taxation Division of the Department of Finance

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- Wireless Security – The controls in place to effectively manage wireless networks across the government reporting entity

Several new projects have been identified – performance audits of Correctional Services and Childcare, an audit of the government's involvement in the new football stadium, an investigation into financial concerns within the NOR-MAN Regional Health Authority, a compliance audit of certain expenses across the government reporting entity, a review of the Province's poverty reduction strategy, an audit of the selection process for wind farms and a number of Information Technology projects. Last year we indicated that we would be including the audit of a child and family services agency. We have now selected the following areas for that audit: Animikii Ozoson Child and Family Services, Inc., Southeast Child and Family Services Agency and board governance practices at the four Child and Family Services Authorities. In our audit report on the Public Accounts for the year ended March 31, 2010 we also indicated that we will be reviewing details around the cause of the fraud associated with an ATM that the Misericordia Health Centre was operating, and the Winnipeg Regional Health Authority's follow-up once an associated police investigation is complete.

I would like to take this opportunity to thank the many individuals who work tirelessly on behalf of the citizens of Manitoba and who make my job a rewarding one – members of the Legislative Assembly and in particular the Public Accounts Committee; staff, officials and board members in central government and government organizations; and each and every staff member in the Office of the Auditor General.

Carol Bellringer, FCA, MBA
Auditor General

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1.0 Our Role and Purpose

Our Mandate

The Auditor General Act (Appendix A) establishes the Office of the Auditor General as an independent entity, reporting to the Legislative Assembly. The Auditor General is appointed for a 10 year renewable term. The current Auditor General was appointed in July 2006.

The Act outlines our responsibilities and authorities to audit financial statements, to select other projects and to conduct special audits on request.

We have the responsibility, under Section 9 of the Act, to examine and audit the financial statements included in the Public Accounts under The Financial Administration Act, and any other statements the Minister of Finance presents for audit. The output from these audits is an opinion on the fairness of presentation of the financial statements or other financial information.

The Auditor General also has the authority, under The Act, to audit all government organizations and recipients of public monies and to provide Members of the Legislature and officials with independent information, advice and assurance on whether:

- financial and administrative legislation, regulations, policies and directives have been complied with;
- public money has been spent with proper regard for economy and efficiency;
- the Legislative Assembly has been provided with appropriate accountability information; and
- the form and content of financial information documents is adequate and suitable.

We refer to these other audits as "projects audits" in this report. To select these project audits, we take a number of factors into account, including risk and significance of the subject matter, potential impact of our audit work, public interest and staff availability.

Section 16 of the Act enables us to respond to requests from the Minister of Finance, the Lieutenant Governor in Council, or the Standing Committee on Public Accounts to undertake audit work if that work would not interfere with the Office's primary responsibilities. This is an important opportunity for the Legislature to use the skills available in our Office to provide useful accountability information. Over the past 5 years, other than one request by the Minister of Finance to expedite an audit we had commenced, neither Cabinet nor the

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Minister of Finance have used the provisions in this Section. And the PAC has only requested one audit under this Section: Image Campaign for the Province of Manitoba issued in October 2007. It is disappointing that this has been the case and suggests that a constructive dialogue needs to take place about how our audits can be used to better serve the Legislature.

With respect to internal operations of the Office, The Act gives responsibility for such matters to the Auditor General.

Last year we reported that we reviewed our Legislation. We noted that there are several areas in The Act which require significant interpretation, other areas which require amendment and other areas which are not addressed but which have become a part of the mandate through other Legislation. While the opportunity to improve the Act remains, we have not encountered any difficulties requiring immediate changes to the Act and do not consider this to be an Office priority. We will continue to monitor the need for change and welcome any requests from the Legislature to discuss this further.

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Our Vision

That the Office of the Auditor General is an accessible, transparent and independent audit office, serving the Manitoba Legislature with the highest standard of professional excellence.

Our Desired Outcomes

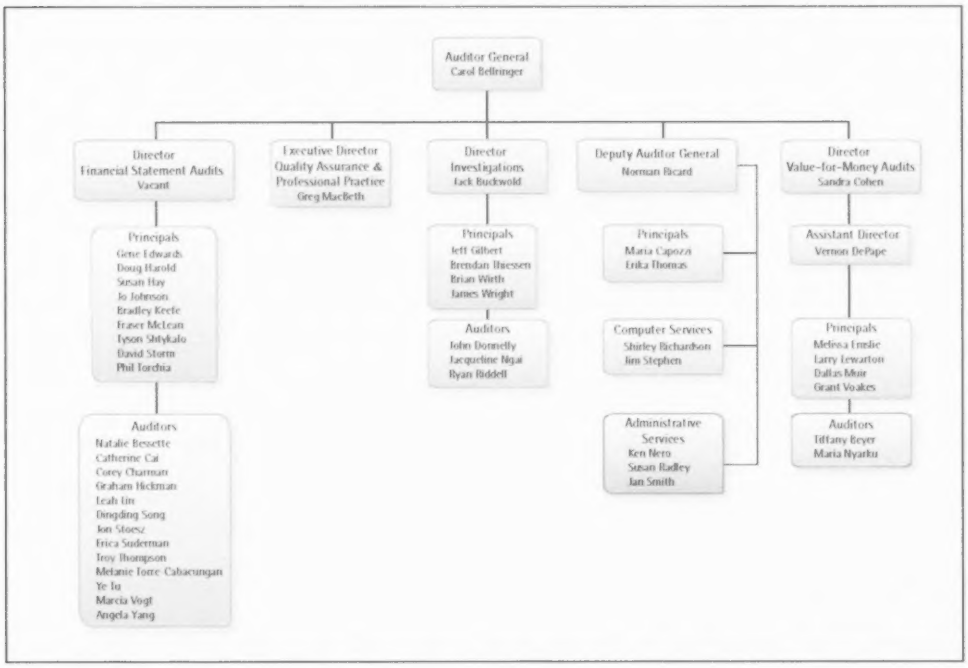
- Government organizations that focus on the achievement of results.
- Meaningful and user friendly public performance reporting by government organizations.
- Strong monitoring function by the Public Accounts Committee and the Legislative Assembly regarding the expenditure of public funds.

Our Objectives

- That our work adds value to the management systems and practices of government organizations.
- That our work provides Members of the Legislative Assembly with relevant information.
- That we manage our internal business effectively.

Organizational Structure

Our organizational structure and members of our staff as at July 31, 2011 are presented below.



2.0 The Public Accounts Committee of the Legislature

The Public Accounts Committee (PAC) is an all party Standing Committee of the Legislature chaired by a member of the official opposition and Vice-Chaired by a member of the governing party. The PAC's primary role is to examine the financial administration of public assets and spending of public funds.

We include a section in our Operations Report on the PAC because of the partnership between the Office of the Auditor General and the PAC in the accountability cycle. Our relationship to the PAC extends on a number of fronts: under our legislation, our reports to the Legislature are referred to the PAC; the Auditor General is expected to attend meetings of the PAC; and PAC may request the Auditor General to undertake a special audit, perform specific reviews or special tasks.

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During its meetings, the PAC considers our audit reports and when it has concluded its deliberations, it passes our reports. Passing our audit reports means that the Committee has completed its consideration of the report and has no further questions/aspects to examine regarding that report.

The PAC also has the option of preparing a report to the Legislature on its examination of any of our reports and can include additional recommendations in its reports. As such, the PAC can play an important role in ensuring that our recommendations are appropriately acted upon. In fact, the PAC's procedural rules entitle it to systematically follow-up on Government's actions and responses to its recommendations in order to complete the accountability cycle. The nature of this follow-up is currently under review by the Committee.

The PAC is required by the Rules of the Legislative Assembly to hold between six and eight meetings in each calendar year. The PAC held 11 public meetings during the 2010 calendar year and an additional three meetings during 2011. This was the second consecutive year that the Committee met this frequently. In addition to the public meetings, the PAC held an in-camera orientation session for members at the start of the year and recently met to complete a self-assessment exercise.

Each of the public meetings was called with the issuance of a "meeting notice" which included the list of matters under consideration and was issued well in advance of the meetings, allowing sufficient time for witnesses and members to prepare for the meetings. The record of all public meetings are available on the Legislative Assembly website ***http://www.gov.mb.ca/legislature/hansard/index.html***, under "committee debates" for the following 2010/11 PAC dates:

February 17, 2010
Examination of the Crocus Investment Fund – May 2005
The report was not passed.

March 3, 2010
Examination of the Crocus Investment Fund – May 2005
Study of Board Governance in Crown Organizations – September 2009
Both reports passed.

March 24, 2010
Follow-Up of Previously Issued Recommendations – March 2009
The report was not passed, but the committee completed consideration of several sections.

April 20, 2010
Follow-Up of Previously Issued Recommendations – March 2009
The report passed.

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May 5, 2010
Audit of Workplace Safety and Health - February 2007
The report passed.

May 19, 2010
Audit of the Province's Management of Contaminated Sites and Landfills - October 2007
Special Audit: Rural Municipality of La Broquerie - March 2008
The following report passed:
Audit of the Province's Management of Contaminated Sites and Landfills

September 22, 2010
Report to the Legislative Assembly – Audits of Government Operations – November 2009:

- Chapter 2: Personal Care Homes Program

The committee did not complete consideration of this chapter.

October 20, 2010
Audit of the Public Accounts for the fiscal year ending March 31, 2008
Audit of the Public Accounts for the fiscal year ending March 31, 2009
Both reports passed.

November 3, 2010
Report to the Legislative Assembly – Audits of Government Operations – November 2009:

- Chapter 1: Meeting Manitoba's Obligations Under the 1997 Treaty Land Entitlement Framework Agreement
- Chapter 3: Assessment Services Branch

The committee completed consideration of both chapters.

November 17, 2010
Special Audit: Rural Municipality of La Broquerie - March 2008
Report on the Winnipeg Regional Health Authority – Administration of the Value-Added Policy – May 2010
Both reports passed.

November 23, 2010
Operations of the Office for the fiscal year ending March 31, 2009
Operations of the Office for the fiscal year ending March 31, 2010
Follow-Up of Previously Issued Recommendations – March 2010
The following reports passed:

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- *Operations of the Office for the fiscal year ending March 31, 2009;*
- *Follow-Up of Previously Issued Recommendations*

February 9, 2011

Report to the Legislative Assembly: Performance Audits - December 2010

- Chapter 1: Managing Climate Change

The committee did not complete consideration of this chapter.

March 16, 2011

Report to the Legislative Assembly: Performance Audits - December 2010

- Chapter 3: Special Audit: Society for Manitobans with Disabilities

The committee completed consideration of this chapter.

May 25, 2011

Report to the Legislative Assembly: Performance Audits - December 2010

- Chapter 2: Economic Development: Loans and Investments under The Development Corporation Act

Audit of the Public Accounts for the fiscal year ending March 31, 2010

The committee did not complete consideration of the chapter or the report.

The reports that have been issued but have not yet been passed by PAC are as follows:

- Report to the Legislative Assembly – Audits of Government Operations - November 2009
  Outstanding Chapters:
  - Chapter 2: Personal Care Homes Program
  - Chapter 4: Members' Allowances
- Operations of the Office for the fiscal year ending March 31, 2010
- Report to the Legislative Assembly: Performance Audits - December 2010
  Outstanding Chapters:
  - Chapter 1: Managing Climate Change
  - Chapter 2: Economic Development: Loans and Investments under The Development Corporation Act
  - Chapter 4: Rural Municipality of St. Laurent
- Audit of the Public Accounts for the fiscal year ending March 31, 2010
- Follow-Up of Previously Issued Recommendations – March 2011
- Manitoba's Participation in Canada's Economic Action Plan – May 2011

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3.0 Risk Management

Risk Management is the process of making and carrying out decisions that will minimize the liabilities and effects of possible adverse events (risks) on an entity's performance. We have established controls to reduce the likelihood that identified risks would adversely affect our ability to achieve our mandate and objectives. We are actively looking for solutions to the challenges identified.

Independence

We need to maintain our independence in order to ensure that we provide objective advice to MLAs. To address the risk of loss of independence or perceived loss of independence, we comply with the standards of our professional associations and have policies and procedures dealing with due care and objectivity, conflict of interest and political affiliations.

The Act states that "Officers and employees necessary to enable the Auditor General to perform his or her duties must be appointed in accordance with The Civil Service Act." We have historically interpreted that to mean that we are required to follow Civil Service Commission (CSC) and Treasury Board Secretariat (TBS) policies and procedures with respect to hiring, compensation and classification of staff positions. During this past year we did not encounter any difficulties, however following CSC and TBS policies and procedures while also being their auditor has the potential for conflict.

Credibility

Our reputation is critical to our success. Therefore we must avoid the risk of providing inappropriate or inaccurate assurance and advice. We strive to do this by using best practices in legislative auditing, including strong quality control practices. We welcome peer reviews from professional bodies and our legislative audit colleagues.

Relevance of Work

In order for our work to be beneficial to our clients, we must ensure that our reports are meaningful to them. We do this by ensuring our audits deal with significant public sector issues.

Through on-going environmental scans, we are able to remain current on areas of strategic importance for our audit work. For instance, we maintain contact with Members of the Legislature and government officials; we hold discussions with members of the Public Accounts Committee; monitor Hansard and media

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reports; maintain contact with our colleagues in other jurisdictions and various professional associations in which we hold memberships.

Resources and Competencies

The quality of our assurance and advice is dependent on the knowledge, skills and ability of our employees. To be successful we need to be able to recruit and retain high quality professionals. We do this by providing a work environment that supports on-going opportunities for our staff to further develop their skills and by supporting a proper work-life balance.

4.0 Our Audit Activities

Our audit activities include financial statement audits and project audits. Our output takes a variety of forms including: audit opinions, audit advice, management letters, and reports to the Legislature. In addition, we make a wide variety of presentations on our work to government organizations and at conferences, symposiums, and workshops. Beyond providing observations and recommendations, our reports identify good management practices and learnings that are of general relevance to public sector organizations.

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Allocation of Audit Time

Audit Time Allocations

	2010/11	*2009/10*
Financial Statement Audits	58%	63%
Project Audits	42%	37%
Total	100%	100%

We set a goal to equally balance the time spent on financial statement audits with the time spent on project audits. While this is an internal goal, we believe that this reflects the wishes of the Legislature to conduct additional non-financial statement audit work, while meeting our statutory obligations. We are pleased with the progress to date and will look for opportunities over the upcoming year to further achieve our goal.

Financial Statement Audits

Strong financial stewardship by government organizations is critical. One of the central ways in which we support financial accountability is through the annual audit opinions we provide on the financial statements of government organizations and the Public Accounts of the Province. We promote transparency, as well as fair and accurate representation in public sector budgets and financial reporting.

Financial statement audit activities include:

- undertaking the necessary examinations to be able to provide audit opinions on annual financial statements, special reports, and public sector compensation disclosures as well as management letters with recommendations on financial management, internal control, compliance, or general operations;
- conducting overviews of government entities, which may also encompass file reviews of the work conducted by private sector auditors. (This work is necessary for our reliance on the work of the private sector firms for inclusion of their clients' financial statements into the Summary Financial Statements for the Province);
- undertaking special reports on financial information, including claims;
- reviewing compliance with legislation to the extent required for the issuance of financial statement opinions;
- working in partnership with the private sector audit firms that we have retained as our agents to provide some of our financial statement attest audits; and
- reporting to the Legislature about the examinations and audits under Section 9 of the Auditor General Act, including anything resulting from the work that we consider should be brought to the Assembly's attention.

Project Audits

Project audits consist of value-for-money audits, investigations, information technology audits and governance reviews.

Value-for-money auditing examines programs and services in order to identify the level of performance achieved and opportunities for improving operations and ultimately results. In carrying out value-for-money audits, we examine management practices, operating systems, processes, and control mechanisms. Some of our value-for-money audits are cross-government – i.e., examinations of a given topic of strategic importance across departments or across other types of government organizations (e.g., Crown Corporations).

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The typical reason for conducting an investigation is to confirm or dispel allegations. In addition to investigating the allegations, these project audits incorporate value-for-money considerations. The special audit team are experienced forensic accountants who also rely on the assistance of external consultants to find out what happened, why and what is recommended to avoid similar situations in the future.

Matters are brought to our attention throughout the year by concerned citizens or government employees. During 2010/11, 41 such matters were brought to our attention (2009/10: 34 matters). We conduct preliminary examinations of all such matters in order to determine which ones are within our mandate and which ones are better investigated by another organization, such as the Office of the Ombudsman. When the matter falls within our mandate, we initiate limited scope audits of those matters. We will summarize the results of this work in our fall report to the Legislature.

Information Technology Audit Services (ITAS) assists all of the audit groups as needed. ITAS plans and executes audit work in support of financial statement audits primarily by auditing general computer controls and assisting with data analysis. ITAS also directly conducts IT audit projects in high risk areas.

We conduct reviews and assessments on issues related to the corporate governance of public sector boards of directors, as well as give presentations and workshops upon request. Effectiveness of public sector governance practices contributes to improved organizational performance and stronger accountability processes.

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5.0 Highlights of Output for 2010/11

Financial Statement Audits and Report on the Public Accounts

- Provided audit opinions or overviews of over 175 government organizations' financial statements (See Appendix B for a list of financial statement audits conducted by the Auditor General's office and those conducted by private sector accounting firms with overviews by the Office of the Auditor General) and audit opinions on government organizations' compliance with the reporting requirements of the Public Sector Compensation Disclosure Act. In addition to the Summary Financial Statements for the Public Accounts, we audit approximately 40 entities that are part of the Government Reporting Entity (GRE) and the government sponsored pension plans. We have the flexibility to engage agents to conduct audits on our behalf when this assists us with scheduling and when it is warranted by the risk of the audit –

currently we use agents for about half of our entity financial statement audits. Other entities in the GRE appoint external financial statement auditors – this is the case for approximately 130 other crown organizations, government enterprises and special operating agencies included in the government reporting entity. We conduct overview procedures for these other audits to fulfill our responsibilities in this area.

- Issued audit opinions on the Public Accounts of Manitoba and the *Statement of Calculation of Balance Under the Balanced Budget, Fiscal Management and Taxpayer Accountability Act (BBL)* in accordance with the statutory deadlines.
- Issued our report on the Audit of the Public Accounts for the year ended March 31, 2010 in December 2010, released publicly in January 2011. Our report included the following highlights:
  - For 2009/10 the Province received an unqualified audit opinion on its Summary Financial Statements. This means that the summary statements present fairly, in all material respects, the financial position and results of operations and cash flow in accordance with Canadian public sector accounting principles.
  - We issued an unqualified audit opinion on the calculation of a positive balance under BBL for the year ended March 31, 2010. Our unqualified opinion provides assurance that the Government has complied with the legislation – not that we agree or disagree with the policy decisions based on the legislation. After the year-end, the Government passed legislation removing the requirement for a positive balance for the next four years. Our observation was that the introduction of balanced budget legislation altered spending behaviour and contributed to strong financial management. While we did not comment on the policy decision to remove the requirement, we urged the Government to continue to ensure spending is within voted budgets.
  - At the end of each of our financial statement audits, we communicate possible improvements to senior management of the Province or to senior management and the board of directors of the organization we audited. If action has not been taken after a reasonable time or if the Legislature should know about the matter immediately, we include that information in our report. This year, we included such information about:
    - Areas for improvement in the Government's Information Technology environment;
    - Quarterly reporting and comparing year-end results to 3rd quarter forecasts;

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- Public Accounts release dates;
- The capacity for financial reporting at the Manitoba Housing Renewal Corporation;
- Allocation of income by The Public Trustee;
- The need for an audit of the Co-operative Loans and Loans Guarantee Board;
- Suspected fraud in the Winnipeg Regional Health Authority; and
- Requirements for supplementary audit reports.

Project Audits

We issued two project audit reports during the past year - in December 2010 and in May 2011.

Report to the Legislative Assembly: Performance Audits-December 2010

Our annual report on our performance audits had four chapters, summarized as follows:

Chapter 1: Managing Climate Change

- Our audit examined management of Manitoba's climate change initiative, including the systems and practices for planning, project management, selecting and funding individual climate change projects, and reporting. Several different departments are involved in climate change issues. The Department of Conservation (the Department) is the lead.
- Manitoba accounts for about 3% of Canada's total greenhouse gas emissions. Manitoba has responded positively to climate change by consulting stakeholders, creating a climate change action plan, and setting a short-term target for reducing emissions that is consistent with Canada's Kyoto commitment of reducing its greenhouse gases to 6% below the 1990 level. It has put in place over 70 different climate change initiatives. Most of the individual project selection and funding decisions we examined were adequately supported with sound data and analysis. There is a system to track government-wide expected and actual emission reductions for approved projects. And the Department has been working to improve its monitoring and status reporting.
- While Manitoba's management of climate change is evolving, the 2008 action plan in place at the time of our audit is not expected to achieve the target level of emissions for 2012 of 17.5 megatonnes (6% below the 1990 level). In

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April 2010, the Department forecast a gap of 2.7 megatonnes in meeting the target. It has subsequently been re-evaluating the plan, seeking options to narrow the gap, and now needs to formally update the 2008 plan. Working with partner departments, the Department also needs to further refine planning, projects management, and reporting processes. In particular, it requires:

- Comprehensive analysis of the benefits, risks and costs of alternative approaches and tools;
- "business as usual" forecasting of greenhouse gas emissions;
- Alignment of climate change action plans with the budget process;
- Clarification of roles and responsibilities of lead and partner departments, as well as Cabinet sub-committees;
- Better identification and management of risks related to reducing both emissions and adverse climate change impacts;
- A method of calculating emissions for public reporting purposes; and
- A system to track climate change spending and the economic and social outcomes associated with climate change projects.

Chapter 2: Economic Development: Loans and Investments under the Development Corporation Act

- The Department of Entrepreneur, Training and Trade (ETT) administers loans and equity investments made under Part II of The Development Corporation Act (the Act), two economic development programs in Manitoba's broader economic development strategy. Most Part II loans are Manitoba Industrial Opportunities Program (MIOP) business loans. Equity investments are in venture capital funds.
- We examined the due diligence used in approving, disbursing and monitoring loans and investments, as well as related performance measurement and public reporting.
- The two programs have stimulated economic development in Manitoba and most systems and practices were adequate.

Our summary of key findings follows:

MIOP Loans

- **Planning:** Senior officials describe the loan portfolio as response-oriented, designed to selectively respond to economic risks and opportunities as they arise, with risk tolerance dependent on the expected economic benefits.

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ETT has developed lending criteria which it applies flexibly in making lending decisions. ETT needs to more clearly communicate this flexibility in publicly available information.

- **Analysis of Requests:** ETT analyzes loan requests by reviewing applicants' business plans and financial information, loan security, and management expertise. However, ETT needs to obtain more complete business plan information and scrutinize financial projections and economic benefits to Manitoba more thoroughly when analyzing loan applications. Before disbursing loans, ETT ensures all loan terms and conditions have been met.
- **Monitoring:** ETT monitors loans adequately through receipt and review of audited and other financial information, site visits, security confirmations, and audits to verify the number of jobs created or maintained. In some cases it needs to receive more timely information from borrowers. It also needs to improve its documentation of monitoring activities.
- **Loan Pricing:** ETT needs to develop guidelines for setting interest rates, penalties for failing to meet agreed upon job targets, and administration fees. Currently, ETT sets these on a case-by-case basis using professional judgement, without documenting a supporting rationale.

Venture Capital Fund Investments

- **Planning:** ETT considers requests for Provincial investment in venture capital funds as they arise. ETT has negotiated a variety of different agreement terms encouraging, but not requiring, funds to invest a portion of their capital in Manitoba-based businesses. ETT has not recently formally assessed how successfully its venture capital fund strategy is contributing to the Province's economic development goals.
- **Analysis of Requests:** When analyzing a request to invest in a venture capital fund, ETT considers each fund's expected rate of return and the fund manager's expertise and experience. It should also consider the capital likely to be invested in Manitoba, the number of Manitoba businesses likely to benefit, and the number of jobs likely to be created or maintained in Manitoba. As well, ETT needs to more consistently review and document fund managers' past returns and specific knowledge of Manitoba businesses and target industry sectors.
- **Monitoring:** ETT appropriately monitors individual fund performance. It also is generally aware that it has multiple exposures to some individual companies through its various fund investments, but should calculate and monitor its total exposure to any one company on a more regular basis. And ETT needs to ensure that conflicts-of-interest, both in placing investments and operating the funds, are identified and responded to.

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- **Performance Measurement and Reporting:** Performance measurement and reporting were in place, but improvements are required to ensure that results reported are accurate and focused on actual economic benefits to Manitoba.

Chapter 3: Special Audit: Society for Manitobans with Disabilities

- In 2005, our Office received a letter (also sent to the Province) from a citizen alleging that the Society for Manitobans with Disabilities (SMD):
  - Had excessive administrative costs.
  - Lacked accountability for public funds (and did not use them for intended purposes).
  - Had poor governance.
- We asked the Department of Family Services and Housing, now the Department of Family Services and Consumer Affairs (Department) how it was following up the allegations. It had asked government's Internal Audit Services to review SMD in early 2005 and they issued a report in May 2005. We decided to give the Department and SMD more time to resolve the issues and the report recommendations before conducting an audit to ensure that all the concerns had been resolved.
- Although there were a number of administrative problems, there were no concerns expressed by the Department about the quality of services SMD provides.
- During the 1999/2000 fiscal year, SMD underwent a significant corporate reorganization. This new structure created a parent company known as "SMD Alliance Inc." (Alliance) and four subsidiary companies, one being the Society for Manitobans with Disabilities Inc. (Services). Our audit focused on the funds that Services received from the Department. The funding is set out in a Service Purchase Agreement (SPA) between the Department and Services.
- Services had not been promptly providing required financial reports to the Province but we found that throughout the period of our audit some improvements had been made. The SPA provides the Province with access to records for all areas it funds. Between 2006 and March 31, 2010 Services had accumulated more than $1.5M in deferred contributions, which represents about 19% of the 2009 provincial funding. The use of these funds has now been resolved.
- Complaints about how a transaction was handled in 2004 and confusion around a significant corporate reorganization were directly related to the allegations we received in 2005.

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- Our audit found that some administrative problems remain and there was a noticeable lack of trust between SMD and the Province that hampers progress. We also found that the three areas within the Department that are involved in the monitoring of SMD's compliance with the SPAs did not coordinate their efforts efficiently. Our report identifies the following issues that still need to be resolved:
  - In our view the current overhead level charged to Services by Alliance, combined with overhead costs incurred directly by Services, totals about 21%. The Province has not specified the level of overhead it will fund, or any restrictions on the use of the overhead.
  - Our review of 3 schedules in the SPA related to specific program areas found that not all of the Province's program outcome requirements were being met.
  - The Chief Executive Officer (CEO) of Alliance can, in accordance with board approved policy, move up to $300,000 among companies if the borrowing entity is able to repay within 120 days.
  - We accept the Department's decision to work with SMD to resolve issues, instead of applying sanctions. If the working relationship between the Department and SMD deteriorates, and the issues we have identified in our report are not resolved, then sanctions may be needed.

Chapter 4: Special Audit: Rural Municipality of St. Laurent

- In September 2009, various allegations were made to the Office of the Auditor General of Manitoba (OAG) including conflicts of interest involving Councillors of the Rural Municipality of St. Laurent (RM), that the RM was not following its tendering policy, and that there was a lack of accountability and reporting to the RM by some of the organizations that the RM provides grants to.
- We found that certain administrative practices require strengthening. The RM did not formally tender for certain significant expenditures, including the purchase of gravel and some maintenance projects. In one case, the RM advertised for a tender but did not follow the established process. Because the RM did not keep adequate documentation, we could not assess if it had tendered a number of other maintenance projects appropriately.
- Our audit of Council's procedures around two major projects - the Artificial Ice Project and the lease agreement with the Recreation Centre for RM office space - found that not all Council members had been provided with adequate or timely information when they voted on these projects.

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- Our audit also included issues of non-compliance with *The Municipal Council Conflict of Interest Act*. Certain of our findings related to a Councillor who was also participating on community boards. We found that the Councillor did vote on certain resolutions while he was a community board member. We noted that the Act does not distinguish between participation on a corporate board from a board which supports the community.

Manitoba's Participation in Canada's Economic Action Plan - May 2011

What we examined

- On January 27, 2009 the federal government introduced "Canada's Economic Action Plan" (Action Plan) in response to the global economic crisis. The Action Plan includes several infrastructure programs that are cost shared with provinces and municipalities. The Canada-Manitoba Infrastructure Secretariat (CMIS) administers 6 of the 8 Action Plan infrastructure programs for Canada and Manitoba. Our audit examined how well CMIS administered the Infrastructure Stimulus Fund (ISF) and the Knowledge Infrastructure Program (KIP).

Why it matters

- Together, the ISF and KIP programs total $437 million (40%) of provincial and federal funding on Action Plan infrastructure programs in Manitoba. The agreements with the federal government include claw-back provisions for all or part (depending on the program) of the federal funds advanced if a project is not completed by the deadline (initially set at March 31, 2011 but, as described below, extended to October 31, 2011). To ensure that federal funds are not lost, it is important that recipients manage their projects effectively and that CMIS monitor project progress. The potential impact of the tight time frame on how funding recipients (recipients) manage these projects also makes it important that CMIS monitor that project funds are spent according to the terms and conditions of funding agreements. Compliance with appropriately designed funding agreements helps ensure public funds are spent economically.
- On December 2, 2010, the Prime Minister of Canada extended stimulus funding for one more construction season if recipients meet certain conditions. As a result, the construction completion deadline for approved projects moved from March 31 to October 31, 2011. While this change may reduce the risk of lost federal funding, the demands on CMIS are largely unaffected.

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Our conclusion and key findings

- We concluded that CMIS has established an appropriate administrative framework over ISF and KIP projects but that it should comprehensively assess project risks and strengthen its processes for determining recipient compliance with their funding agreements and for determining project progress. We base this conclusion on the findings discussed in our report and summarized below.

  - **Funding agreements properly in place**—for the 15 projects we examined, agreements between Manitoba and recipients were signed before any payment of claims. The agreements had the ISF or KIP terms and conditions and were vetted with legal counsel.

  - **Stronger interim compliance review practices would minimize efforts required at final claim**—CMIS officials frequently spoke of the challenges in balancing their need for accountability and management information with the need to let recipients focus their limited resources on delivering their projects. In our view, understanding project risks and focusing review efforts on higher risk projects and areas are key to effectively balancing these conflicting needs. Project managers had a reasonable knowledge of their assigned recipients, and certain risks. But CMIS had not developed a consistent approach to comprehensively understand project risks.

    CMIS was diligent in ensuring claims were eligible, properly supported, and accurately calculated. But they had not developed a risk-based approach to obtain assurance that recipients were meeting their funding agreement obligations. Detailed review procedures were not conducted in conjunction with any of the claims we audited even though 7 of the 9 projects in our sample with claims had enough risk to warrant some detailed review procedures. Rather, CMIS efforts focused on gathering basic information from all the projects regarding the competitive procurement process that was followed and the need for environmental assessments, licences, and permits. But there are gaps in this information.

  - **Construction progress monitored but additional independent information would reduce the risk of misstated progress**—CMIS relied heavily on information prepared by recipients to assess construction progress. Its progress report form does not require supporting site photographs, nor does it require actual progress be compared to planned milestones. In addition, CMIS did not require any form of progress certification by project architects or engineers prior to the federal government extending the funding deadline. As part of the extension conditions, the federal government required that detailed

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construction schedules certified by a professional engineer be submitted by January 2011.

Information related to the risk of not completing a project by March 31, 2011 was gathered as part of the project approval process and through CMIS project monitoring efforts. But these processes were not always well documented. In the fall of 2010, CMIS prepared a report to provincial and federal officials that identified projects "at risk" of not being completed by the March 31, 2011 deadline. The "at risk" factors that CMIS officials said they considered were reasonable. For the 15 projects we examined, we agreed with all but one of the assessments.

- **Reporting to the federal government met requirements**—CMIS appropriately reported the required information quarterly to the federal government.

Follow-Up of Previously Issued Recommendations

In March 2011, we issued our third annual report on our Follow-up of Previously Issued Recommendations.

We request a status update from management, and then conduct review procedures to assess the plausibility of the statuses provided. We reported that we were pleased with the overall progress which has been made to address our recommendations. We have observed an improvement to the monitoring process by government departments. We also believe that regular public reporting of progress, combined with the scrutiny of our reports by the Public Accounts Committee are factors which have contributed to the improvement.

In recent years, PAC has spent considerable time asking organizations about whether our recommendations have been implemented. These questions enable PAC to obtain up-to-date information about the current status. PAC has also introduced a progressive practice of ensuring that all of the unanswered questions asked at the Committee are subsequently answered and circulated to PAC members. PAC is currently discussing changes to its procedural rules that will further strengthen the follow-up process. This report, covering 20 reports, will be referred to PAC. We strongly encourage PAC to request action plans from organizations where recommendations have not been fully implemented.

Of the 20 reports, 13 are over 5 years old, and they contain over 55% of the recommendations that are not yet implemented. They are:

- **Advanced Education and Literacy**
  - University of Winnipeg – Investment in Information Technology
  - University of Winnipeg – Financial Review

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- Department of Advanced Education – Student Financial Assistance Program
- Keewatin Community College – Investment in Information Technology
- Red River College of Applied Arts, Science and Technology IT Audit

- **Conservation**
  - Investigation of Hecla Island Land and Property Transactions
- **Family Services and Consumer Affairs**
  - Family Services and Housing – Child Protection and Support Services
- **Housing and Community Development**
  - Department of Family Services and Housing – Public Housing Program
  - Investigation of the Maintenance Branch of Manitoba Housing Authority
- **Innovation, Energy and Mines**
  - Information Technology Organization
  - Computer Security Incident Response Capability
- **Justice**
  - Department of Justice – Maintenance Enforcement Program
- **Local Government**
  - Investigation of the Rural Municipality of St. Clements

The status updates for 3 more recent audits indicate that significant progress has been made in implementing the related recommendations, but work remains to fully address these reports. These reports are:

- **Health**
  - Audit of the Pharmacare Program, Manitoba Health)
- **Labour and Immigration**
  - Audit of Workplace Safety and Health
- **Water Stewardship**
  - The Protection of Well Water Quality in Manitoba

The remaining 4 reports are now considered cleared:

- **Aboriginal and Northern Affairs**
  - Northern Manitoba Community Councils' Financial Reporting Standards)

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- **Advanced Education and Literacy**
  - University of Winnipeg - Investigation of Missing Artifacts at the Anthropology Museum of the University of Winnipeg
- **Family Services and Consumer Affairs**
  - Department of Family Services - Child, Family and Community Development Branch - Agency Accountability
- **Local Government**
  - Review of Municipal Financial Accounting and Reporting Standards in Manitoba.

Governance Practice

The Office was invited to discuss governance issues at a number of events throughout the year, including:

- Presentations at 3 national conferences, including the Government Finance Officers Association, and the Government Internal Auditors Council of Canada (GIACC).
- Workshops and presentations to 8 public sector Boards of Directors, including the Manitoba Arts Council, the Teachers Retirement Allowances Fund, and several Regional Health Authorities.
- Presentations at 2 provincial conferences, one focused on private sector management issues and one on healthcare management.
- Presentation at a national symposium of legislative auditors held in Toronto, Ontario.
- Several presentations to university classes and provincial internship programs.

6.0 Our Planned Activities for 2011/12

Financial Statement Audits

While there are no anticipated changes to the list of financial statement audits which we will work on during 2011/12, there are significant changes to Canadian auditing standards which are effective for audits of financial statement periods ending on or after December 14, 2010. We will more fully describe the changes in our Annual Report to the Legislature on the Public Accounts. However, we want to draw attention to one change to the form of the audit opinions which will be released publicly in the upcoming months when the associated year-end financial statements are issued.

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Canadian standards changed to enable Canadian auditors to carry out consistent and comparable audits using standards that are accepted internationally. The adoption of international auditing standards eliminates the need for Canada to maintain its own separate set of standards. International standards have recently been upgraded and are high quality, clear and understandable. More than 100 countries have already adopted these standards or are in the process of doing so.

One of the most notable changes from current requirements is a change to the audit report. The general purpose audit report for the Public Accounts and for each of the other organizations we audit will move to a six paragraph report, compared to the existing three paragraphs. The report is more explicit with regards to responsibilities of management and the auditor. The report may include two additional sections for "Emphasis of Matters" and "Other Matters":

Emphasis of Matter (if any)

- Must relate to a matter already disclosed or presented in the notes to the financial statements
- Auditor believes the importance of the issue should be emphasized for users
- Not a qualification – the auditor must clearly indicate this

Other Matter (if any)

- For a matter other than those that are presented and disclosed in the financial statements
- In the auditor's judgement, the matter is relevant to the users' understanding of the audit
- An "other matter" is not a qualification
- Has occasionally been used in the past to report matters of interest

As an example, in the absence of unusual circumstances, the following new form of Auditors' Report would be issued for the Public Accounts:

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INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of Manitoba
We have audited the accompanying financial statements of Province of Manitoba, which comprise the statement of financial position as at March 31, 2011, and the statements of revenue and expense, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter (if any)
A description would follow, as appropriate.

Other Matter (if any)
A description would follow, as appropriate.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Province of Manitoba as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Auditor's signature]
[Date of the auditor's report]
[Auditor's address]

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Project Audits

The following list includes project audits which may be nearing completion, others which are in the planning stage, and those which we anticipate starting before the end of the 2011/12 fiscal year. We have not indicated the stage of completion, as we consider everything as "in progress" until such time as our work is reported publicly.

The Auditor General Act requires that a report about the examinations and audits conducted be made at least once in each year. The Act also permits a special report to the Assembly on any matter of pressing importance or urgency that should not be deferred until the annual report is presented. We plan to issue our annual audit report in November or December as it is the usual timeframe for a fall sitting of the Legislature. Also, the various chapters in a single report will provide the Public Accounts Committee with a full list of audits to be scheduled. We will issue individual reports as special reports to the Assembly, if necessary.

When we conduct our annual planning exercise, we reassess the value of audits that have not yet been started and analyze potential areas not previously considered. Three audits listed in last year's report are no longer included in our audit plans: the Estimates Process, Grant Accountability and Management of Consulting Services. While we are not planning an audit of the estimates process, we will continue to report on the comparison of actual year-end financial results with the budget and 3rd quarter forecast (see page 22 of our Audit of the Public Accounts for the year ended March 31, 2010). Aspects of the other two audits will be integrated into other projects, as appropriate.

Over the next year, we will continue to work on the following audits which were listed in last year's Operations report:

- Bodily Injury Claims managed by Manitoba Public Insurance
- eHealth – Controls in place around certain aspects of the electronic health records program
- Food Safety – The controls in place to protect the public in areas of food safety
- Forks North Portage – The Province's role in managing Forks North Portage
- Framework for an Ethical Environment in Government – The government's framework for ensuring a strong understanding of appropriate public sector values and ethical expectations within the civil service
- Governance Examination – The Province's process for appointing board members to Manitoba's Crown Corporations

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- Provincial Nominee Program – The Province's Provincial Nominee Program as managed by the Department of Entrepreneurship, Training and Trade, including the effectiveness of controls in place by the Province to protect immigrants sponsored under the Program
- The Special Needs Program delivered through the public school system, as directed by the Department of Education
- Special Operating Agencies – whether administrative efficiencies have been achieved through the establishment of Special Operating Agencies.
- Taxation collection and taxation audit processes in the Taxation Division of the Department of Finance
- Wireless Security – The controls in place to effectively manage wireless networks across the government reporting entity

Last year we indicated that we would be including the audit of a child and family services agency. We have now selected the following areas for that audit: Animikii Ozoson Child and Family Services, Inc., Southeast Child and Family Services Agency and board governance practices at the four Child and Family Services Authorities.

In our audit report on the Public Accounts for the year ended March 31, 2010 we also indicated that we will be reviewing details around the cause of the fraud associated with an ATM that the Misericordia Health Centre was operating, and the Winnipeg Regional Health Authority's follow-up once an associated police investigation is complete.

Several new projects have been identified:

- Childcare – Manitoba's Childcare Program, as managed by the Department of Family Services and Consumer Affairs
- Compliance audit of expenses – Board members and senior management expenses
- Correctional Services – the Department of Justice's processes for providing correctional services in Manitoba
- an audit of the government's involvement in the new football stadium
- Information Technology projects: Security Management, IT Governance and controls over selected IT applications.
- an investigation into financial concerns within the NOR-MAN Regional Health Authority
- a review of the Province's poverty reduction strategy
- Wind farms – selection process

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7.0 How We Carry Out Our Work

This section briefly describes key aspects of how we operate in order to be able to generate independent assurance and advice pursuant to our mandate. In carrying out our work, we are guided by a set of operating principles as follows:

Operating Principles

Independence

We conduct our work in an objective and unbiased manner.

Balanced Perspective

We put forth well considered and fair conclusions based on analysis of all opinions and where appropriate, reporting on strengths as well as weaknesses.

Teamwork

We work together cooperatively and in a coordinated manner to achieve a common goal.

Accountability

We are accountable for our individual contributions to the products and services provided by the Office.

Value-Added Work

We provide the Legislative Assembly with value-added reports.

Professional Conduct

In carrying out our work, we adhere to the Office values of: respect, honesty, integrity, and openness.

Professional Excellence

We maintain sound audit methodology and meet the professional standards and competency requirements of our Office.

Financial Stewardship

We use taxpayers' money efficiently and effectively.

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Professional Activities

Staff participate in several professional associations which enables them to both contribute to the professional environment as well as to stay up-to-date. Most audit staff hold designations from one of the following organizations: The Institute of Chartered Accountants of Manitoba (ICAM), Certified General Accountants of Manitoba (CGA) or Certified Management Accountants of Manitoba (CMA). Other staff members have Masters in Public Administration degrees.

Greg MacBeth and Sandra Cohen participate on committees at the ICAM and Jo Johnson is on a CGA committee.

We participate in the standard setting process by providing our comments on both accounting as well as auditing and assurance standards being proposed for the public sector in Canada. As well, the Auditor General is a member of Canada's Auditing and Assurance Standards Board.

Four staff members – Natalie Bessette, Fraser McLean, Jon Stoesz and Bradley Keefe assist with the CA School of Business as facilitators and Uniform Final Evaluation (UFE) exam markers. Natalie also represented the ICAM at a Conference case competition at the Asper School of Business at the University of Manitoba.

Staff members also have memberships in the Institute of Internal Auditors, Financial Management Institute, Institute of Public Administration of Canada, SAMPA (Students' Association for the Masters in Politics and Public Administration) and the Institute of Corporate Directors.

During the year, two of our staff members – Susan Hay and Bradley Keefe made a presentation to the Western Canadian Comptroller's Conference on the impact of the new Canadian Auditing Standards.

Our Designation as an Articling Office

The Office is approved by the Institute of Chartered Accountants of Manitoba as a training office and supports articling students in their pursuit of the Chartered Accountant (CA) designation. In 2010/11, we employed 7 full-time articling students. During the past year, we assisted students in completing their CA School of Business (CASB) requirements. The Office fosters an environment of continuous learning to ensure all educational requirements are met. The Office's Student Recruitment Development Committee supports students throughout their CASB studies, and preparation for the UFE exam. We have started discussions with central government and Crown corporations to explore ways that our Office can train students for positions in their organizations. Given the unique position of our Office with both student support for their studies and a broad exposure to Provincial public sector organizations, we are well positioned to assist in training graduates for financial management positions. We would welcome this opportunity.

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During the current year, two of our students wrote and passed the UFE. The successful candidates were Erica Suderman and Corey Charman.

CCOLA

The Office is a member of the Canadian Council of Legislative Auditors (CCOLA), which consists of the Auditors General from each jurisdiction across Canada. We meet twice a year to discuss emerging issues and share practices in carrying out our mandate as legislative auditors. CCOLA has established several working committees. Our staff are represented on these committees. Participation on CCOLA and its committees is of collective benefit to the legislative audit community by giving us access to each others' knowledge, information, and expertise. The CCOLA committees that we participated on in 2010/11 are:

- The Strategic Issues Group (Norm Ricard)
- The Human Resources Network (Norm Ricard)
- Health Study Group (Grant Voakes)
- Education Study Group (Vernon DePape)
- P3 Discussion Group (Susan Hay)
- The Peer Review Committee (Greg MacBeth)
- The Training Oversight Group (Dallas Muir)
- The Information Technology Committee (Fraser McLean); and
- The Governance Study Group (Maria Capozzi).

The Provincial Auditors General entered into a memorandum of understanding with the Office of the Auditor General of Canada to benefit from the services of a National Professional Practices Group (NPPG). The NPPG provides us with technical accounting and auditing advisory services and training support, on an as-needed basis.

Twinning Project - National Audit Office of Kenya

The CCAF-FCVI (Canadian Comprehensive Auditing Foundation) with financial support from CIDA (Canadian Industrial Development Agency) have been assisting the Supreme Audit Institutions (SAIs) of partnering developing countries to contribute to sustainable economic growth by improving accountability, transparency and good governance. As part of the international program, "fellows" from SAIs spend a year in Canada receiving training in Value-for-Money auditing. In 2007, CCAF began the pairing or "twinning" of a provincial Legislative Audit Institution in Canada with SAIs. Jointly the partners identify the topic in which the LAI will serve as a mentor and technical advisor. Manitoba was so twinned with the National Audit Office of Kenya (KENAO) in 2008.

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In April, 2011, five staff members travelled to Nairobi, Kenya to work with the KENAO. Maria Capozzi, Larry Lewarton, Tyson Shtykalo, Fraser McLean and James Wright provided the KENAO with one-one consultations and workshops about Canadian practices in the areas of Value-for-Money Auditing, Forensic Investigations, Information Technology audit, audit support software (TeamMate) and the audit of the Public Accounts and learned about equivalent practices in Kenya. The team established strong working relationships to the benefit of both countries.

8.0 Financial Accountability

Our Finances

The Legislative Assembly Management Commission (LAMC), an all-party Legislative Committee, reviews and approves our annual budget. LAMC is also responsible for approval of the auditor selected to audit our Office's financial statements. Frostiak & Leslie Chartered Accountants Inc., were re-appointed to conduct the financial statement audit of our Office for the period 2006/07 to 2010/11.

The Auditor General Act requires an annual audit of the Auditor General's office in Section 26 (1) as follows:

> 26 (1): Each year, an auditor whose appointment is approved by the Legislative Assembly Management Commission must examine the accounts of the office of the Auditor General and prepare a report. The Commission may also direct the auditor to conduct an audit respecting any of the matter listed in subsection 14 (1).

Historically, this has encompassed a financial statement audit prepared in accordance with generally accepted accounting principles. Because the Office of the Auditor General is not a separate corporate entity, there is no requirement for a set of GAAP financial statements. It was decided in 1997 that not-for-profit financial statements would be used to disclose the financial results and financial position of the office. However, the financial statements are complex and we are concerned that the detailed nature of the information provided may not be needed by the Legislature or the public. We urge the LAMC to discuss their information needs prior to appointing an auditor for the year 2011/12. We would be pleased to provide assistance to the LAMC.

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Our Budget Process

As per Section 27(3) of The Auditor General Act, the Office receives funding from the Legislative Assembly appropriations. The Auditor General annually presents to the LAMC an estimate of the amount of money that will be required for the purpose of conducting the work of the Office for the forthcoming year.

The Office maintains a bank account from which its operating expenses are paid. Advances are provided by the Province up to the amounts approved by LAMC.

Note 5 to the financial statements summarizes the approved funding for the past two years. In both years, the Office managed within its allocated funding and returned unexpended balances to the Consolidated Fund in accordance with Section 27(4) of The Auditor General Act.

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Our Billing Process

Section 23 (b) of the Auditor General Act states that "the Auditor General may charge fees for services provided by the office on a basis approved by the Lieutenant Governor in Council." In May 2011, an Order in Council was issued that authorized the Auditor General "to charge, as a fee for service provided by the office, any amount up to the full cost of delivery of that service, including direct and indirect salary costs, overhead and any amount paid to an external contractor for a professional service." This replaced an Order in Council that was issued in 1991 and that provided a detailed formula to calculate the billing rates. The Order in Council issued in 2011 will cap the billings at full cost but allow for flexibility in determining billing rates that better reflect up-to-date costs.

Year's Operations

Overview of 2010/11 financial results:

- The total approved estimates decreased by $622,000 over the prior year, due to a one-time capital allowance in 2010 of $743,000, partially offset by an increase of $122,000 to cover general cost increases in operating expenses. The approved estimates for salaries and employee benefits did not change in 2011 from 2010.
- The portion of the approved estimates that was not expended was $304,000 due to longer than expected staff vacancies. However, this compares to unexpended funds of $782,000 in 2010 when several staff positions were kept vacant until renovations were completed. The office's current goal is to fill all vacancies promptly and to utilize all available approved positions.

- The actual salaries and benefits expenses increased by $171,000 in 2011 due to promotions, merit increases and reduced vacancy levels.
- Capital asset acquisitions included computer hardware and software acquisitions of $102,000 primarily for updated servers and to increase our storage capacity.
- Other operating cost increases resulted from:
  - Professional development for audit, information technology and leadership training - $60,000
  - Leased office space negotiated by the Department of Infrastructure and Transportation that took effect September 2009, including increased square footage for additional staff for positions previously held vacant and due to higher costs per square foot - $41,000
  - Information technology, primarily due to licensing fees charged by the Province for Microsoft Office as of April 1, 2010 - $32,000

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Auditor's Report

FROSTIAK & LESLIE
Chartered Accountants Inc.
www.cafinancialgroup.com

CA.COM FINANCIAL GROUP

INDEPENDENT AUDITOR'S REPORT

TO THE LEGISLATIVE ASSEMBLY OF MANITOBA

We have audited the accompanying financial statements of the Office of the Auditor General of Manitoba, which comprise the statement of financial position as at March 31, 2011, and the statement of operations, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Manitoba as at March 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Frostiak + Leslie
Chartered Accountants Inc.

Winnipeg, Manitoba
July 8, 2011

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Financial Statements and Notes

OFFICE OF THE AUDITOR GENERAL OF MANITOBA
STATEMENT OF FINANCIAL POSITION

As at March 31, 2011, with comparative figures for 2010 (000's)

	2011	2010 (restated
ASSETS		
Current assets		
Cash	$ 138	$ 340
Accounts receivable	67	27
Short-term receivable - Province of Manitoba	464	413
Prepaid expenses	95	83
Accrued revenue - audit fees	204	166
	968	1,029
Long-term receivable -		
Province of Manitoba (note 3)	9,874	9,645
Capital assets (note 4)	689	718
	$ 11,531	$ 11,392
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 113	$ 277
Accrued liabilities	122	83
Accrued vacation pay	464	413
	699	773
Provision for employee severance benefits (note 6)	564	534
Provision for employee pension benefits (note 7)	9,310	9,111
	9,874	9,645
Net assets available	958	974
Commitment (note 8)		
	$ 11,531	$ 11,392

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Manitoba:

Original document signed by:
Carol Bellringer Auditor General

Original document signed by:
Norm Ricard Deputy Auditor General

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
STATEMENT OF OPERATIONS AND NET ASSETS AVAILABLE

Year ended March 31, 2011, with comparative figures for 2010 (000's)

	2011	2010 (restated)
Revenue		
Province of Manitoba (note 5)	$ 6,306	$ 6,430
Audit fees	875	862
	7,181	7,292
Expenses		
Operating		
Salaries and benefits (notes 6 and 7)	5,293	5,122
Professional fees	832	800
Professional development	226	165
Office rent	299	258
Office administration	158	172
Information technology	121	89
Memberships and publications	58	49
Printing	23	36
Travel	17	19
Interest and bank charges	2	1
	7,029	6,711
Amortization		
Capital assets	168	138
Total Expenses	7,197	6,849
Excess of expenses over revenue	(16)	443
Net assets available, beginning of year	974	531
Net assets available,end of year	$ 958	$ 974

See accompanying notes to financial statements.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
STATEMENT OF CASH FLOWS

Year ended March 31, 2011, with comparative figures for 2010 (000's)

	2011	2010 (restated)
Operating activities		
Excess of expenses over revenue	$ (16)	$ 381
Items not involving a current outlay of cash		
Amortization	168	138
Net change in working capital balances		
Accounts receivable	(40)	38
Short-term receivable - Province of Manitoba	(51)	(38)
Prepaid expenses	(12)	62
Accrued revenue - audit fees	(38)	5
Accrued vacation pay	51	38
Accounts payable & accrued liabilities	(125)	384
Long-term receivable - Province of Manitoba	(229)	(215)
Provision for employee severance	30	42
Provision for employee pension	198	173
	(216)	489
Net (decrease) increase in cash from operations	(64)	1,008
Investing activities		
Purchases of capital assets	(138)	(672)
Net (decrease) increase in cash	(202)	336
Cash, beginning of year	340	4
Cash, end of year	$ 138	$ 340

See accompanying notes to financial statements.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

1. NATURE OF OPERATIONS AND ECONOMIC DEPENDENCE

The Auditor General is appointed under The Auditor General Act (Chapter 39) as an officer of the Legislature. The Act provides for the establishment of the Office of the Auditor General of Manitoba (the Office) and sets out the authority and powers of the Auditor General, identifies the audit services to be provided, and establishes reporting responsibilities.

The Office is economically dependent on the Province of Manitoba. The annual estimates for the operations of the Office are approved by the Legislative Assembly Management Commission and are included in the Government's estimates which are voted through the Appropriation Act by the Legislative Assembly. The expenditures of the Office are reflected in the Public Accounts of the Province.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Auditor General Act does not specify the financial reporting model to be used by the Office. To fully disclose the nature and extent of our operations, the Office began in 1997 to prepare its financial statements in accordance with Canadian generally accepted accounting principles. The financial statements reflect the following policies:

a) Revenue from the Province of Manitoba

Section 27(3) of the Auditor General Act states: "The money required for the purpose of this Act is to be paid out of the Consolidated Fund from money authorized by an Act of the Legislature."

Revenue from the Province of Manitoba is equal to the appropriations voted on for the year then ended after certain adjustments as detailed in Note 5.

b) Revenue from audit fees

Section 23(b) of the Auditor General Act states: "The Auditor General may charge fees for services provided by the office on a basis approved by the Lieutenant Governor in Council." The Office is the financial statement auditor for a number of government related entities. The Office charges a fee for this service. Audit fee revenue is recognized on the basis of the percentage of work completed. The amount reflected as work in process is valued at its estimated billable amount.

c) Leases

Leases are classified as operating leases and the related lease payments are charged to expense as incurred.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

d) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. The more subjective of these are estimating the pension obligation and severance liability. Actual results could differ from those estimates.

e) Amortization

Capital assets are stated at cost. Capital assets are amortized using the straight line basis over the estimated useful life of the capital assets as follows:

Computer software licenses	the life of the license if over 1 year
Computer hardware and software	3 years
Furniture and fixtures	10 years
Leasehold improvements	10 years

f) Employer's share of Employees' Pension Benefits

Employees of the Office are pensionable under the Civil Service Superannuation Act. The Office accrues a provision for the employer's share of employee pension benefits, including future cost of living adjustments, based on an actuarial valuation using the accrued benefit cost method and management's best estimates of salary escalation, retirement ages of employees and employee mortality. Actuarial gains or losses are recognized in the year they are incurred.

g) Vacation and Severance Benefits

Employees of the Office are entitled to vacation and severance benefits in accordance with the terms of the collective agreement. A liability is recorded for the value of vacation entitlements earned but not yet taken. A liability is also recorded for severance benefits earned. The severance liability is based on an actuarial valuation using the accrued benefit cost method and management's best estimates of salary escalation, retirement ages of employees and employee mortality. Actuarial gains or losses are recognized in the year they are incurred.

h) Financial Instruments

Canadian generally accepted accounting principles require that financial instruments be classified into one of the following five categories: held for trading, held to maturity, loans and receivables, available for sale, or other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Office when the financial instrument is initially recorded, based on the underlying purpose of the instrument.

Financial instruments are initially recognized at fair value and then subsequently at amortized cost with gains and losses recognized in the Statement of Operations in the period in which the gain or loss occurs. The fair value of a financial instrument is the estimated amount that the Office would receive or pay to settle a financial instrument at the reporting date.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

The financial instruments of the Office are classified and measured as follows:

Financial Asset/Liability	Category	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Short term receivable - Province of Manitoba	Loans and receivables	Amortized cost
Accrued revenue - audit fees	Loans and receivables	Amortized cost
Long-term receivable - Province of Manitoba	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The fair value of Cash, Accounts receivable, Short-term receivable - Province of Manitoba, Accrued revenue - audit fees, Accounts payable and Accrued liabilities approximate their carrying values. The Long-term receivable - Province of Manitoba is equal to the actuarially determined Provision for employee pension benefits (notes 3 and 7). The carrying value of this receivable approximates its fair value as the interest component is comparable to current market.

Risk Management

The financial instruments of the Office and the nature of the risks which they may be subject to are as follows:

Financial Instrument	Credit Risk	Liquidity Risk
Cash	X	
Accounts receivable	X	
Short term receivable - Province of Manitoba	X	
Accrued revenue - audit fees	X	
Long-term receivable - Province of Manitoba	X	
Accounts payable, Accrued liabilities		X
Accrued vacation pay		X

Credit Risk

The Office is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The maximum exposure of the Office to credit risk at March 31, 2011 is as follows:

Cash	$ 138
Receivables	10,609
	$ 10,747

Management believes that credit risk with respect to receivables is limited due to the parties involved. Receivables from the Government and other public sector organizations at March 31, 2011 comprised 100% of the Office's total receivables.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

The Office has not set up an allowance for doubtful accounts as it is confident all amounts will be collected. The Long-term receivable - Province of Manitoba $9,874 (2010 - $9,645) reflects the Province's commitment to fund pension and severance obligations. While the Office accrues the liability and the related funding commitment from the Province as the benefits are earned by Office employees, the Province will only provide the related funding when the benefits are required to be paid to individuals, with the exception of employer current service pension costs. As disclosed in notes 6 and 7, for the year ended March 31, 2011, the Province paid severance benefits of $35 (2010 - $20) and pension benefits of $699 (2010 - $700).

Liquidity Risk

Liquidity risk is the risk that the Office will not be able to meet its obligations as they come due. The Office minimizes its liquidity risk by preparing and monitoring detailed forecasts of cash flow requirements, ensuring these forecasts are within its LAMC approved estimates, and drawing from its Consolidated Fund appropriation the required amounts on a quarterly basis.

3. LONG-TERM RECEIVABLE - PROVINCE OF MANITOBA

The Province has accepted responsibility for funding the Office's severance and pension obligations. The Office has therefore recorded a Long-term receivable from the Province of Manitoba equal to the total of the estimated values of its actuarially determined severance and pension obligations (notes 6 and 7).

The Long-term receivable includes an interest component that is comparable to current market.

4. CAPITAL ASSETS

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	$ 845	$ 671	$ 743	$ 605
Furniture and fixtures	502	108	497	59
Leasehold improvements	143	22	150	8
	$ 1,490	$ 801	$ 1,390	$ 672
Net book value	$ 689		$ 718	

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

5. REVENUE FROM THE PROVINCE OF MANITOBA

As shown in the table that follows, Revenue from the Province of Manitoba is equal to the appropriations voted on for the year ended March 31, 2011 after the following adjustments:

a) Every year the Office's estimates are approved by the Legislative Assembly Management Commission. Any portion of the approved estimates that is not expended lapses and is not available to the Office after the end of the fiscal year. As shown in the following table, for the year ended March 31, 2011 the Office lapsed $304 (2010 - $782).

b) Employee benefits are included in the approved estimates on a cash basis. When calculating Revenue from the Province of Manitoba, an adjustment is made to reflect these costs on a full accrual basis.

c) The fees charged to other organizations for work conducted by Office employees are deducted from the approved estimates when calculating Revenue from the Province of Manitoba. Such fees are deducted because the related Office expenses are recovered from these organizations. Audit fees are recorded as Audit Fee revenue and are returned to the Consolidated Fund.

	2011	2010	Explanatory Note
Approved Estimates			
Salaries and employee benefits (appropriation 1.6a)	$ 5,115	$ 5,115	
Other expenditures (appropriation 1.6b)	1,332	1,559	
Capital	-	395	
Total Approved Estimates	6,447	7,069	
Less: Portion of the approved estimates that was not expended	(304)	(782)	a
Subtotal	6,143	6,287	
Plus: Accrued employee benefits	1,036	987	b
Less: Employee benefits paid	(309)	(282)	b
Less: Audit fees charged to entities for work conducted by Office employees	(564)	(562)	c
Revenue from the Province of Manitoba	**$ 6,306**	**$ 6,430**	

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

6. PROVISION FOR EMPLOYEE SEVERANCE BENEFITS

Employees of the Office earn severance benefits based on one week of salary for each year of service up to a maximum of fifteen weeks. Employees who retire in accordance with the provisions of The Civil Service Superannuation Act will also be eligible for the following:

a) employees with 20 or more years of accumulated service, an additional 2 weeks of pay;
b) employees with 25 or more years of accumulated service, an additional 2 weeks of pay plus the amount in a) above;
c) employees with 30 or more years of accumulated service, an additional 2 weeks of pay plus the amounts in a) and b) above;
d) employees with 35 or more years of accumulated service, an additional 2 weeks of pay plus the amounts in a) and b) and c) above.

The Provision for employee severance benefits is determined as follows:

	2011	2010
Balance at beginning of year	$ 534	$ 492
Benefits accrued	28	28
Interest accrued	37	34
Benefits paid	(35)	(20)
Balance end of year	$ 564	$ 534

The net severance expense, which is included in Salaries and Benefits, is determined as follows:

Benefit accrual	$ 28	$ 28
Interest accrual	37	34
Net severance expense	$ 65	$ 62

The severance obligations are determined by an actuarial valuation. The most recent actuarial report is dated December 31, 2007. The key actuarial assumptions in the December 31, 2007 actuarial report are a rate of return of 6.5% (2004 - 6.5%), an inflation rate of 2.5% (2004 - 2.5%) and a salary rate increase of 3.25% (2004 - 3.25%). The provision has been extrapolated to March 31, 2011 using a formula provided by the actuary.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

7. PROVISION FOR EMPLOYEE PENSION BENEFITS

Employees of the Office participate as members of the Civil Service Superannuation Plan, a defined benefit pension plan.

The Provision for employee pension benefits is determined as follows:

	2011	2010
Balance at beginning of year	$ 9,111	$ 8,938
Current service costs	261	247
Interest accrued	637	626
Benefits paid	(447)	(453)
Current service costs funded	(252)	(247)
Balance at end of year	$ 9,310	$ 9,111

The net pension benefit expense, which is included in Salaries and Benefits, is determined as follows:

Current service cost - employer portion	$ 261	$ 247
Interest costs	637	626
Net pension expense	$ 898	$ 873

The pension obligation is determined by an actuarial valuation every three years. The most recent actuarial report is dated December 31, 2007 (received in June 2009). The key actuarial assumptions in the December 31, 2007 actuarial report are a rate of return of 6.5% (2004 - 6.5%), an inflation rate of 2.5% (2004 - 2.5%), a salary rate increase of 3.25% (2004 - 3.25%) and post retirement indexing at 2/3 of the inflation rate. The liability was extrapolated to March 31, 2010 using a formula provided by the actuary.

The Office's portion of the pension benefits paid to retired employees is processed through central appropriations of the Government.

8. COMMITMENT

The Office's premises are leased by Manitoba Infrastructure and Transportation (MIT) from the owner of 330 Portage Avenue, Winnipeg, Manitoba. MIT charges back to the Office the full cost of the lease. Minimum annual lease payments are approximately $297 for the first 5 years of the lease, not including additional adjustments for occupancy costs which may be applicable. In year six of the lease, the annual base rent charge will increase $13. The current lease expires August 31, 2019.

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OFFICE OF THE AUDITOR GENERAL OF MANITOBA
NOTES TO FINANCIAL STATEMENTS

March 31, 2011 (000's)

9. CAPITAL MANAGEMENT

The Office has defined capital as its Net assets available. Each year the Office's estimates are approved by the Legislative Assembly Management Commission and an appropriation is set up from which expenditures are made. The Office's objective when managing capital is to ensure sufficient cash balances are available to cover its cost of operations. Office salaries are drawn directly from our appropriation by the civil service payroll system. For all other operating expenditures, money is drawn and deposited into our bank account as required, in sufficient amounts to meet our expected operating expenditures. Any unexpended balance at the end of the year "lapses" and is no longer available to the Office. There were no changes to the Office's approach to capital management during the period. The Office is not subject to externally imposed capital requirements.

10. PRIOR PERIOD ADJUSTMENT

The Office records a liability at March 31 of every fiscal year equal to the amount of overtime, salaries and benefits earned by staff but not paid. In the past, the Office did not record the corresponding revenue and related receivable from the Province of Manitoba (representing the required funding).

The Office has restated the prior year financial statements to reflect the additional Revenue from the Province of Manitoba. As a result, Net Assets available as at April 1, 2009 increased $21, to $531, and as at March 31, 2010 Revenue from the Province of Manitoba increased $31, to $6,430, Salary and benefit expense declined $31, to $5,122, net income increased $62, to $443, Net assets available increased $83 to $974 and Accounts payable declined $83, to $277.

11. POTENTIAL CHANGES TO THE OFFICE'S FINANCIAL REPORTING MODEL

The Auditor General Act provides no guidance on the nature of financial information to be publically reported by the Office. The financial reporting model used by the Office has been in place since 1997, with various enhancements made as needed. While it has served the Office well, we are assessing how best to continue reporting on the nature and extent of our operations. Our goal is to ensure that legislators receive information on our operations that is understandable, sufficiently detailed and responsive to our operating context. Options include preparing financial statements in accordance with Public Sector Accounting Standards or disclosing specified financial information.

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Appendices

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The Auditor General Act

Appendix A

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C.C.S.M. c. A180

The Auditor General Act

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(Assented to July 6, 2001)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

PART 1

DEFINITIONS

Definitions

1 In this Act,

"department" means a department or branch of the government, (« ministère »)

"external auditor" means a professional auditor or firm of professional auditors appointed to audit the financial statements of a government organization; (« vérificateur externe »)

"government organization" means a department, government agency or fund included in the summary financial statements of the government reporting entity referred to in clause 65(1)(b) of *The Financial Administration Act*; (« organisme gouvernemental »)

"public money" means public money as defined in *The Financial Administration Act*, (« fonds publics »)

"recipient of public money" means

(a) a person, organization or other body

(i) that has received, directly or indirectly, a grant, loan or advance from the government or a government organization,

(ii) to whom the government or a government organization has transferred property for no consideration or consideration substantially less than its fair market value, or

(iii) for whom the government or a government organization has guaranteed the performance of an obligation or given an indemnity,

(b) a business entity or organization that has received a tax credit under a Manitoba law, or

Appendix A (cont'd) The Auditor General Act

(c) a business entity or organization that has issued a share, debt obligation or other security, if a person is eligible for a tax credit under a Manitoba law in respect of that acquisition or ownership of the security,

but does not include a government organization. (« bénéficiaire de fonds publics »)

PART 2

AUDITOR GENERAL

Appointing the Auditor General
2(1) On the recommendation of the Standing Committee of the Assembly on Legislative Affairs, the Lieutenant Governor in Council must appoint an Auditor General of Manitoba, as an officer of the Assembly, to provide the Assembly with independent information, advice and assurance under this Act.

Role respecting government policy objectives
2(2) Nothing in this Act is to be interpreted as entitling the Auditor General to question the merits of policy objectives of government.

S.M. 2004, c. 42, s. 97.

Appointment process
3(1) The President of the Executive Council must convene a meeting of the Standing Committee on Legislative Affairs if

(a) the office of Auditor General is vacant;

(b) the term of the Auditor General in office will expire within 12 months; or

(c) the Auditor General has resigned and the resignation takes effect within 12 months.

Recommendations of committee
3(2) The Standing Committee on Legislative Affairs must consider candidates for the position of Auditor General and make recommendations to the President of the Executive Council.

Meetings of committee
3(3) To carry out its responsibilities, the Standing Committee on Legislative Affairs may meet during a session of the Legislature or during a recess after prorogation.

No other public office
3(4) The Auditor General may not be nominated for, be elected as, or sit as a member of the Assembly, and may not hold any other public office or engage in any partisan political activity.

S.M. 2004, c. 42, s. 97.

Term
4 The Auditor General is to hold office during good behaviour for a term of 10 years, and may be reappointed for further terms of 10 years each.

Salary
5(1) The Auditor General must be paid a salary within the range of salaries paid to senior deputy ministers in the civil service, and is entitled to the same privileges of office as a senior deputy minister.

No reduction in salary

The Auditor General Act

Appendix A (cont'd)

5(2) The Auditor General's salary must not be reduced except by a resolution of the Assembly carried by a vote of 2/3 of the members voting.

Civil Service Superannuation Act applies
6(1) The Auditor General is an employee within the meaning of *The Civil Service Superannuation Act*.

Civil Service Act does not apply
6(2) *The Civil Service Act*, except sections 42 and 43, does not apply to the Auditor General.

Suspension or removal
7(1) The Lieutenant Governor in Council may suspend or remove the Auditor General from office on a resolution of the Assembly carried by a vote of 2/3 of the members voting.

Suspension if Assembly not sitting
7(2) When the Assembly is not sitting, the Lieutenant Governor in Council may suspend the Auditor General for cause, if advised to do so in writing by a majority of a committee consisting of the President of the Executive Council and the recognized leaders of the members belonging to the political parties in opposition. But a suspension imposed when the Assembly is not sitting may not continue beyond the end of the next sitting.

Deputy Provincial Auditor General
8(1) On the Auditor General's recommendation, the Lieutenant Governor in Council may appoint a Deputy Auditor General in accordance with *The Civil Service Act*.

Duties
8(2) If the Auditor General is absent or unable to act or if the office is vacant, the Deputy Auditor General has the powers and must carry out the responsibilities of the Auditor General.

Salary in certain cases
8(3) During any period that the Deputy Auditor General must assume the Auditor General's responsibilities for an extended period, the Lieutenant Governor in Council may direct that the Deputy be paid a salary within the same range as the Auditor General.

No other public office
8(4) The Deputy Auditor General may not be nominated for, be elected as, or sit as a member of the Assembly, and may not hold any other public office or engage in any partisan political activity.

PART 3

RESPONSIBILITIES OF THE AUDITOR GENERAL

AUDIT OF ACCOUNTS AND FINANCIAL STATEMENTS

Audit of government accounts
9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.

Audit of other public money
9(2) The Auditor General is responsible for examining and auditing public money that is not part of the Consolidated Fund, unless an Act provides otherwise.

Appendix A (cont'd) The Auditor General Act

Audit of the Public Accounts
9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under *The Financial Administration Act*, and any other statements the Minister of Finance presents for audit.

Opinion about the Public Accounts
9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.

Report to ministers
9(5) At least once in each year, the Auditor General shall make a report about the examinations and audits conducted under this section to the minister responsible for each government organization concerned and to the Minister of Finance. The Auditor General must allow at least 14 days for those ministers to review and comment on the report before finalizing it for submission to the Assembly under subsection 10(1).

Advice to officials
9(6) The Auditor General may advise appropriate officers and employees of matters discovered in conducting examinations and audits under this section.

Annual report to Assembly
10(1) No later than December 31 in each year, the Auditor General must report to the Assembly about the examinations and audits conducted under section 9.

Content of the report
10(2) The report must indicate anything resulting from the work of the Auditor General that he or she considers should be brought to the Assembly's attention, including, but not limited to, circumstances in which

(a) required information was not provided or was not provided within a reasonable time;

(b) accounts were not properly kept or public money was not fully accounted for;

(c) essential records were not maintained, or the rules and procedures applied were insufficient, to

(i) safeguard and control public property,

(ii) secure an effective check on the assessment, collection and proper allocation of revenue, or

(iii) ensure that expenditures were made only as authorized;

(d) public money was expended for purposes other than those for which it was appropriated by the Legislature;

(e) financial and administrative provisions of Acts, regulations, policies and directives were not complied with.

Report may include recommendations
10(3) The report may include any recommendation the Auditor General wishes to make, and may

The Auditor General Act

Appendix A (cont'd)

draw attention to and make recommendations about any audit conducted by an external auditor under section 12.

SPECIAL REPORT TO ASSEMBLY

Special report to Assembly
11 The Auditor General may make a special report to the Assembly on any matter of pressing importance or urgency that he or she considers should not be deferred until the next annual report under section 10 is presented.

AUTHORITY OVER EXTERNAL AUDITORS

Scope of an external audit
12(1) When an external auditor is appointed to audit the financial statements of a government organization, the Auditor General may require the external auditor to give the Auditor General a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit.

Further directions
12(2) Before an external auditor issues an audit opinion on the financial statements of a government organization, the Auditor General may require the external auditor to

(a) give the Auditor General a copy of the proposed audit opinion, the financial statements, and any recommendations arising out of the audit of the financial statements; and

(b) conduct additional examinations relating to the financial statements.

Audit working papers
12(3) The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers.

Audit opinion
12(4) As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements.

Reliance on external auditor's report
13 In order to fulfil his or her responsibilities as the auditor of the government's accounts, the Auditor General may rely on the report of an external auditor of a government organization or of a subsidiary of a government organization.

AUDIT OF OPERATIONS

Audit of operations
14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:

(a) whether financial and administrative provisions of Acts, regulations, policies and directives have been complied with;

(b) whether public money has been expended with proper regard for economy and efficiency;

(c) whether the Assembly has been provided with appropriate accountability information,

Appendix A (cont'd) The Auditor General Act

(d) whether the form and content of financial information documents is adequate and suitable.

Report to ministers
14(2) At least once in each year, the Auditor General shall make a report about the examinations and audits conducted under this section to the minister responsible for each government organization concerned and to the Minister of Finance. The Auditor General must allow at least 14 days for those ministers to review and comment on the report before finalizing it for submission to the Assembly.

Report to officials
14(3) The Auditor General may advise appropriate officers and employees of matters discovered in conducting examinations and audits under this section.

Report to Assembly
14(4) The Auditor General must report to the Assembly annually on the work carried out under this section, and may bring to the Assembly's attention anything he or she considers necessary, including recommendations.

AUDIT OF RECIPIENT OF PUBLIC MONEY

Audit of recipient of public money
15(1) The Auditor General may conduct an examination and audit in respect of public money received by a recipient of public money, including the matters listed in subsection 14(1), and may require the recipient to prepare and give to the Auditor General the financial statements setting out the details of the disposition of the public money received.

No obstruction
15(2) No person shall obstruct or provide false or misleading information to the Auditor General or a person employed under the Auditor General in conducting an examination or audit under this section, or conceal or destroy any records or things relevant to an examination or audit.

Offence
15(3) A person who contravenes subsection (2) is guilty of an offence and is liable on summary conviction to a fine of not more than $10,000.

Reliance on report of other auditor
15(4) The Auditor General may rely on the report of an auditor appointed by a recipient of public money.

SPECIAL AUDIT ON REQUEST

Special audit on request
16(1) When requested to do so by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts, the Auditor General may examine and audit the accounts of a government organization, recipient of public money or other person or entity that in any way receives, pays or accounts for public money. But the Auditor General is not obliged to do so if he or she is of the opinion that it would interfere with the primary responsibilities of the Auditor General.

Report
16(2) The Auditor General must report the findings of an audit under this section to the person or body that requested the audit and to the minister responsible for any government organization concerned.

The Auditor General Act

Appendix A (cont'd)

Report submitted to the Assembly
16(3) The Auditor General may submit a report of an audit under this section to the Assembly if it is in the public interest to do so, but must allow at least 14 days for the minister responsible for the government organization and the Minister of Finance to review and comment on the report before finalizing it for submission to the Assembly.

JOINT AUDIT

Joint audit
17 With respect to public money that is spent jointly, the Auditor General may undertake a joint audit with the Auditor General of Canada, an Auditor General or Provincial Auditor of another province or territory, or an auditor of a municipality.

PART 4

POWERS OF THE AUDITOR GENERAL

Access to records
18(1) Despite any other Act, the Auditor General is entitled to access at all reasonable times to the records of any government organization that are necessary for the purpose of this Act.

Access to information
18(2) The Auditor General may require and is entitled to receive any information necessary for the purpose of this Act from

(a) any person in the public service or formerly in the public service;

(b) any current or former director, officer, employee or agent of a government organization or of a recipient of public money; or

(c) any other person, organization or other body that the Auditor General believes on reasonable grounds may have information relevant to an examination or audit under this Act.

No access to Cabinet confidences
18(3) Despite subsections (1) and (2), the Auditor General shall not have access to information described in subsection 19(1) of *The Freedom of Information and Protection of Privacy Act*, except in the circumstances mentioned in subsection 19(2) of that Act.

Part V of Evidence Act powers
19 The Auditor General or his or her delegate may examine any person on oath on any matter that the Auditor General considers relevant to an examination and audit under this Act, and for that purpose the Auditor General or delegate has the powers of a commissioner appointed under Part V of *The Manitoba Evidence Act*.

Staff in government organizations
20 To carry out responsibilities under this Act more effectively, the Auditor General may place a person or persons employed under the Auditor General in any government organization, and the organization must provide the necessary office accommodation.

Security requirements
21 The Auditor General must ensure that every person employed under the Auditor General who is to examine records of a government organization complies with any security requirements applicable to persons employed in that organization.

Appendix A (cont'd) The Auditor General Act

PART 5

GENERAL PROVISIONS

STAFF AND OFFICE OF THE AUDITOR GENERAL

Staff appointed under Civil Service Act
22(1) Officers and employees necessary to enable the Auditor General to perform his or her duties must be appointed in accordance with *The Civil Service Act*.

Civil Service Superannuation Act applies
22(2) Officers and employees of the Auditor General, including the Deputy Auditor General, are employees within the meaning of *The Civil Service Superannuation Act*.

Office of the Auditor General
23 The Auditor General is responsible for the internal operations of his or her office and for the persons employed under the Auditor General. For those purposes, the Auditor General may

(a) establish office policies and procedures consistent with practices followed by the government;

(b) charge fees for services provided by the office on a basis approved by the Lieutenant Governor in Council;

(c) delegate to any person employed under the Auditor General any responsibility or power that the Auditor General has under this Act, other than the responsibility to report to the Assembly;

(d) maintain an independent bank account; and

(e) contract for professional services.

CONFIDENTIALITY

Confidentiality
24(1) The Auditor General and everyone employed under the Auditor General shall preserve secrecy concerning all matters that come to their knowledge in the course of their work under this Act, and shall not communicate those matters to any person unless required to do so in connection with the proper administration of this Act or a proceeding under this Act, or in a court of law.

Exception
24(2) Nothing in subsection (1) limits the Auditor General's right to report under this Act on the conclusions of an examination or audit.

Working papers confidential
25 The working papers relating to an examination or audit by the Auditor General or a person employed under the Auditor General are confidential and must not to be laid before the Assembly or any committee of the Assembly.

ANNUAL REPORT OF AUDITOR GENERAL'S OFFICE

Annual audit of Auditor General's office
26(1) Each year, an auditor whose appointment is approved by the Legislative Assembly Management Commission must examine the accounts of the office of the Auditor General and prepare

The Auditor General Act

Appendix A (cont'd)

a report. The Commission may also direct the auditor to conduct an audit respecting any of the matters listed in subsection 14(1).

Annual report
26(2) Before August 1 each year, the Auditor General must report to the Assembly on the operations of his or her office. The report must include

(a) information on the performance of the office; and

(b) the report on the annual audit under subsection (1).

ESTIMATES

Estimates
27(1) The Auditor General shall present annually to the Legislative Assembly Management Commission estimates of the amount of money that will be required for the purpose of this Act.

Special report
27(2) The Auditor General may make a special report to the Assembly if he or she thinks that the amount of money provided in the estimates submitted to the Legislature is inadequate.

Money
27(3) The money required for the purpose of this Act is to be paid out of the Consolidated Fund from money authorized by an Act of the Legislature.

Unexpended money to be paid into Consolidated Fund
27(4) All money which has been authorized by an Act of the Legislature to be paid and applied for the purposes of this Act that remains unexpended at the end of the fiscal year must be paid to the Minister of Finance and becomes part of the Consolidated Fund.

TABLING REPORTS IN THE ASSEMBLY

Tabling reports in the Assembly
28(1) When making a report to the Assembly under this Act, the Auditor General must submit the report to the Speaker. The Speaker must lay a copy of it before the Assembly within 15 days after receiving it if the Assembly is sitting or, if it is not, within 15 days after the beginning of the next sitting.

Distribution to members of the Assembly
28(2) On receiving a report under this Act, the Speaker must direct that copies be sent to the members of the Assembly.

Referral to Public Accounts Committee
28(3) A report to the Assembly under this Act stands referred to the Standing Committee on Public Accounts.

PROTECTION FROM LIABILITY

Protection from liability
29 No proceeding may be instituted against the Auditor General, the Deputy Auditor General, or any person employed under the Auditor General,

(a) for any act done in good faith in the performance or intended performance of a duty or in the

Appendix A (cont'd) The Auditor General Act

exercise or intended exercise of a power under this or any other Act or regulation; or

(b) for any neglect or default in the performance or intended performance or in the exercise or intended exercise in good faith of a duty or power described in clause (a).

TRANSITIONAL, CONSEQUENTIAL, REPEAL AND COMING INTO FORCE

Transitional

30 *The Provincial Auditor appointed under* ***The Provincial Auditor's Act*** *continues in office as the Auditor General under this Act as if appointed under this Act for a term that expires on the day the appointment under* ***The Provincial Auditor's Act*** *would expire.*

31

NOTE: The Schedule referred to in this section contained consequential amendments to other Acts that are now included in those Acts.

Repeal

32 *The Provincial Auditor's Act*, R.S.M. 1987, c. P145, is repealed.

C.C.S.M. reference

33 This Act may be referred to as chapter A180 of the *Continuing Consolidation of the Statutes of Manitoba*.

Coming into force

34 This Act comes into force on a day fixed by proclamation.

NOTE: S.M. 2001, c. 39 was proclaimed in force May 1, 2002.

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Cooperative Loans and Loans Guarantee Board
Cooperative Promotion Board
Council on Post Secondary Education
Manitoba Gaming Control Commission
Manitoba Health Services Insurance Plan
Manitoba Housing and Renewal Corporation
Public Schools Finance Board
Special Operating Agencies Financing Authority
University of Manitoba (and controlled entities)
University of Winnipeg

Special Operating Agencies

Public Trustee

Other

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Helen Betty Osborne Foundation
Leaf Rapids Town Properties Ltd.
Legal Aid Services Society of Manitoba
Manitoba Agricultural Services Corporation
Manitoba Centennial Centre Corporation
Manitoba Habitat Heritage Corporation
Manitoba Horse Racing Commission
Manitoba Water Services Board
University College of the North

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Addictions Foundation of Manitoba
Assiniboine Community College
Cancer Care Manitoba

Listing of Audit Entities

Appendix B (cont'd)

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Collège universitaire de Saint-Boniface
Communities Economic Development Fund
Crown Corporations Council
Diagnostic Services of Manitoba Inc.
First Nations of Northern Manitoba Child & Family Services Authority
First Nations of Southern Manitoba Child & Family Services Authority
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Manitoba Boxing Commission
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Vehicle and Equipment Management Agency
Green Manitoba Eco Solutions
Food Development Centre
Industrial Technology Centre
Manitoba Education Research and Learning Information Networks (MERLIN)
Manitoba Securities Commission
Materials Distribution Agency
Office of the Fire Commissioner
Pineland Forest Nursery
Property Registry
Vital Statistics Agency

Web Version